Transcript of Q4/24 Financial Results Call
Knorr-Bremse AG

File length: 00:36:07

M Moderator

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ML Marc Llistosella

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AG Akash Gupta

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LF Lucas Ferhani

BU Ben Uglow

TF Tore Fangmann

AS Andreas Spitzauer

AS Good morning as well as good afternoon, ladies and gentlemen. I hope all of you are very fine. My name is Andreas Spitzauer, Head of Investor Relations at Knorr-Bremse. I want to welcome you to today's conference call where we will present the preliminary results for 2024. Today, Marc Llistosella, our CEO, and Frank Weber, our CFO, will present the numbers followed by a Q&A session. The conference call will be recorded and is available in our homepage, www.knorr-bremse.com, in the Investor Relations section. Here you can find today's presentation and later a transcript of the call. It is now my pleasure to hand over to Marc Llistosella.

ML Many thanks, Andreas. Ladies and gentlemen, I would also like to welcome you to our Capital Market Call for our preliminary full year 2024 results. Allow me to mention a special highlight this year at the beginning. We are celebrating an important birthday this year. Knorr Bremse will turn 120 years. Georg Knorr founded Knorr Bremse in Berlin 120 years ago. He started out in a modern factory with 165 employees. Today, 120 years on, we operate worldwide and we are the global market leader. Georg Knorr laid the foundation. Heinz Hermann Thiele shaped the company and, thanks to his efforts, made it the world market leader. The entire Knorr Bremse team will continue this successful path. Our clear priorities are sustainable growth, profitability and value creation. In 120 years, we have grown steadily, aligned our portfolio with market demands and responded flexibly to changes. But at our core, we have always remained true to ourselves: We are innovative – we act as entrepreneurs – we want to get things done. That is what has made us who we are. In this connection, I am also pleased that I can continue to drive and shape the future of Knorr-Bremse together with my Executive Board team. As you know, my contract was recently extended by five years. I give my thanks to Reinhard Ploss and the entire Supervisory Board for their confidence in me and look forward to continuing working together closely and trustingly.

Let me now begin with the key messages of today. The war in Ukraine, multiple crisis and economic challenges– these were the topics that continued to impact our business last year. Nevertheless, with our resilience, strength and entrepreneurship, we have proven that we can be successful even in difficult environments. Especially in these economically and geopolitically tense times, we are more than satisfied with our business performance. At the same time, we have secured long-term refinancing with our latest successful bond issue, which included our first green bond. A rock-solid balance sheet gives us the basis we need for the future. We have achieved strong results overall – with record order books, which give us a solid foundation for this year. Our Rail Division delivered record levels for revenues and order book. In addition, Rail once again accounted for a share of revenue of more than 50 percent, thus creating an important basis for the entire Group's profitable growth. Our Truck Division generated a double-digit return despite the extremely difficult market situation it currently has to contend with. That is a strong performance. We responded to the market weakness at an early stage by taking countermeasures. That enabled us to secure our results. We are fully on track with our "BOOST 2026" strategy program and, as announced, have implemented important measures as part of our brownfield activities, including the successful streamlining of our portfolio with the sale of four companies. As a result, we have already carved out more than 60% of the planned revenue volume. Our brownfield activities – or housekeeping, as we call it – also includes strict cost discipline and permanent questioning of existing processes and structures. The result is a significant improvement in profitability with an operating free cash flow that reached the highest level in our 120-year company history.

Ladies and gentlemen, let us now take a look at our financial targets for 2024. We were able to achieve or even surpass all our targets for revenues, EBIT margin, and free cash flow in the past fiscal year. Our record order book, a low leverage, and high liquidity confirm our strong resilience and show that we are in top financial shape. At the same time, they are the foundation for sustainable growth.

Let me continue with an overview of our BOOST program on slide 5. We have set out to accomplish a lot under this strategy program we launched in summer of 2023. After all, we want to be substantially quicker, more efficient and develop greater strength. Our BOOST program is clearly aligned to creating added value – all the initiatives must contribute to this goal. Our profitability has top priority. We have implemented more than 1,000 measures globally –with great success. We are reducing our costs. We are streamlining our product portfolio. At the same time, we are investing in digitalization and automation and have also launched first AI initiatives in order to benefit from the new opportunities. We are also investing in profitable new business fields, such as the rail signaling technology business in North America: The acquisition of "KB Signaling" from Alstom in September 2024 opens up new opportunities for Knorr-Bremse in the highly promising

North American market. The successful entry into the attractive and high-margin signaling technology business means we can push ahead with creating our own value added and generate sustainable growth with new and digital solutions. At the same time, we are also increasing our share of revenue in the more stable and more profitable rail business and reducing our dependence on the cyclical truck market. In addition, we are currently conducting an intensive strategic discussion and evaluating how Knorr-Bremse should be positioned in the future. We are not shying away from any option, and – in general – I do not want to rule out a possible business expansion. Our focus on increasing value and sustainable profitable growth is and will remain very clear.

Our portfolio measures with a total revenue volume of €1.4 billion are shown on slide 6. As part of that, we are challenging all of our business areas – in particular those that deliver relatively weak results. Wherever the analysis indicated that we are not the best owner of a particular line of business, we initiated a consistent separation process or launched a firm turnaround plan. We are aligning everything towards ensuring sustainable value creation. We have made great strides in optimizing our portfolio over the past year – with a clear focus on core competencies and performance. Four units have already been successfully sold since the beginning of 2024: Kiepe Electric from the Rail division and Safety Direct, GT Emission Systems and Sheppard from the Truck division. Two further sell-it processes have already been initiated. We expect that the sell-it measures will increase our operating EBIT margin by around 130 basis points by 2026 versus 2022.

A comprehensive program of fix-it measures is also underway and is delivering greater efficiency worldwide. And here, too, we always focus on where we can become faster and more agile. Where can we become even better where we are already good at? We are tackling in some cases of outdated structures, and where our previous measures were not sufficient, we are making adaptations quickly and flexibly. As part of that, we had to make adjustments in many areas, bundle areas of responsibility, centralize Group-wide tasks, and also optimize our global footprint – always with the aim of making our company more powerful, cost-conscious, agile, and modern. In addition to the efficiency programs we have successfully launched to date, we are already looking beyond 2026. That is why we have expanded our optimization measures globally: The clear assignment of global responsibilities, the prioritization of projects, or efficient controlling are just some of the measures that support our goal of improving margins under the BOOST program. Furthermore, additional sustainable efficiency measures, such as expanding global shared services or strengthening sites with lower cost levels, will also increase Knorr-Bremse's profitability beyond 2026.

Let me now give you a few examples from our operating business to show you where we were particularly successful last year on slide 8. At the product level, we made a brilliant impression this year, particularly on the stages of the leading trade fairs Automechanika, InnoTrans, and IAA Transportation, where we demonstrated our technological solutions to international experts and aroused the interest of our customers with numerous innovations. Our Rail Division again captured important contracts in 2024. Among other things, Knorr-Bremse will equip at least 246 CITYLINK streetcars from Stadler with system solutions and will be responsible for providing comprehensive aftermarket services for 32 years. This makes Knorr-Bremse a key equipment partner for Stadler in a long-term and large-scale mobility project. Knorr-Bremse will also fit 42 further regional trains with braking, entrance and sanitary systems for Alstom. This is another large follow-up order from the platform partnership between Alstom and Knorr-Bremse, under which train fleets in several European countries are already being equipped. In 2024, our Truck Division successfully pressed ahead with streamlining its portfolio in order to concentrate even more strongly on its core competencies moving ahead and to make its business even more focused and profitable. As already briefly mentioned, this included the sale of the SafetyDirect product line and the sale of GT Emissions Systems, a leading supplier of emission control systems for diesel engines in commercial vehicles. The disposal of Sheppard, a manufacturer of commercial vehicle steering systems in the North American market, was another important milestone.

Let us now take a look at the current market situation for Rail and Truck, as well as our market expectations for the current year. Looking at the rail market, we can see that underlying demand is very strong in all regions, something that is reflected in the consistently high order intake and record order books. Thanks to a resurgence in passenger numbers in most countries, both in the aftermarket and in the OE segment, the Rail Division made a significant contribution to the good overall result. We assume that demand will remain strong in the current fiscal year reflected in an expected Book-to-Bill ratio of above 1. Our customers' order books are full, and that makes us optimistic about the outlook for the current fiscal year. The backlog of old orders, which was heavily affected by inflation, has been largely handled. Overall, the inflation-related effects on our business have thus been minimized. As expected, the current market environment in the Truck Division is difficult in the three major regions of North America, Europe and China. We expect the market environment to remain weak in the first half of the year. We assume there will be an increase in the truck production rates in the second half of the year and therefore a recovery of the market in the U.S., Europe and China. This assessment has been indicated in many discussions with customers. In the current year, we see growth opportunities in the aftermarket business in particular. And we have high hopes that Cojali will continue to perform very well. In this challenging market situation, we are using the time to further optimize our costs and structures at the Truck Division – with efficiency and foresight in order to strengthen and future-proof our business. I would now like to hand over to Frank, who will outline the preliminary financial figures for the past fiscal year.

FW Thank you, Marc, and welcome also from my side. Let's now turn to slide 10 to discuss the financials for the Full Year 2024 first. Knorr-Bremse generated revenues of almost 8 billion Euros, more or less a stable development on reported level year-over-year and slightly up in organic terms. On a divisional level, RVS more than compensated for CVS's market driven topline performance last year. From a regional point of view, the APAC region and South America contributed to the revenue increase while Europe and North America reported a decline. Our operating EBIT margin benefited from a strong bottom-line improvement in rail, a good regional mix, very good aftermarket in rail, operating leverage in general as well as our BOOST efficiency measures. Accordingly, our Group's EBIT margin rose by 100 basis points to 12.3%. The development of rail's EBIT margin was particularly pleasing, seeing an increase of 130 basis points to 15.6%. Important reasons for this increase in profitability in 2024 was the good aftermarket business as well as the closing of the price-cost gap, which will also be supportive this year. CVS was able to increase its EBIT margin as well, by 40 basis points to 10.4%. This was a GREAT achievement considering the weak truck market especially in Europe - a strong demonstration of CVS's resilience. Order intake and backlog also achieved great results, stable levels year-over-year and ranging only slightly below record levels. This development underlines KB's outstanding position in both markets. The strong improvement in cash flow is a major highlight of 2024. We were able to improve the free cash flow quarter-over-quarter last year again. Overall, free cash flow for the full year amounted to 730 million Euros. A historical record figure if you exclude non-operating proceeds which we had in the year 2019. We promised to improve our cashflow and we strongly delivered. I would also like to thank all colleagues, business partners and customers for the great collaboration and dedication in the last year. Let's continue our path on the way to new strength together!

Let's now focus on our balance sheet on slide 11. A top priority of my finance policy is and remains a superior financial profile, especially important in times of uncertainty like nowadays. In addition, it provides a high level of flexibility for our strategic goals and operations at the same time. A strong level of equity remains important to us. At yearend 2024, Knorr-Bremse reached a level of more than 3 billion Euros and a good equity ratio of 32%, slightly down year-over-year but higher in absolute terms. The slight decline of the ratio is purely driven by the prefinancing of the 2025 bond maturity of 750 million Euros. Without that, the equity ratio would have remained at 35%. Our liquidity increased significantly to 2.3 billion Euros. This is driven by the issuance of a dual-tranche bond amounting to 1.1 billion Euros in September, including our first Green Bond. With the proceeds, we strengthen our position as a trailblazer of sustainability and green mobility for our customers, we financed the acquisition of KB Signaling and – as already mentioned – we refinanced existing liabilities in the amount of 750 million Euros maturing in September 2025. Consequently, net debt increased by 45% to 912 million Euros, leading to a comfortable net debt to EBITDA leverage of 0.7. Our credit ratings with A3 and A- remain on a very good level with a stable outlook, underlining our strong financial profile resilience.

Let's move to slide 12. Capex in 2024 amounted to 350 million Euros, in relation to revenues 4.4%. This is 20 basis points and 18 million Euros below previous year. Following several years of higher Capex, we adjust the target range of Capex to revenues going forward from originally 5-6% to now 4-5%. The reason for this is that quite a few projects have now been completed with revenues kicking in overtime and it is important for us to increase capex efficiency, which we are driving also with footprint optimizations globally. Regarding R&D expenses, we will target a ratio rather towards 6% mid-term, after 6-7% in the past years. The reduction will be done especially in the truck division. Also here, revenues should kick in and we focus on R&D portfolio streamlining. Reported Net Working Capital increased by 164 million Euros year-over-year, solely driven by the acquisition of KB Signaling. Without this effect, NWC would have been nearly on previous year's level. The slight increase in scope of days year-over-year is driven by the strong market downturn in CVS especially in half-year 2 which couldn't be fully equalized in the supply chain at the same time. We continue to take action across all working capital areas, in particular further efficiency improvements on the inventory side via our "Collect" program. Despite all measures in customer receivables and inventories, we still took care of a solid supply security for our customers but could not decouple from the market. As a result of improved EBIT and capital efficiency, our ROCE increased from 19.5% to 20.8%, without KB Signaling even to 21.2%. This figure represents a good development and is fully in line with our target of more than 20%. Thanks to our strong financials, we can both provide a solid return as well as a growing dividend to our shareholders AND AT THE SAME TIME invest in future products and system solutions strengthening our competitive positioning.

I would like to provide you more details regarding our Free Cashflow on slide 13. We could improve the Free Cashflow sequentially last year, reaching 482 million Euros in the last quarter alone. Overall Free Cashflow came in at 730 million Euros on a full year level, the best figure ever in the 120 years history of KB – if we consider 2019 had a massive positive sale-and-lease-back effect. The improvement of Free Cashflow was driven by a higher and qualitatively good EBIT, lower Capital expenditures, lower tax payments as well as by the before mentioned net working capital measures. We were able to improve in basically all relevant dimensions. A very important KPI for us is the cash conversion rate. In 2024 it reached 113% in operating terms, adjusting it even downwards for negative non-cash one-timers that burdened net income. This is an extraordinary figure, well above the 96% in 2023 and again well above our target range of 80-90%.

Let’s move on to chart 14. Also in 2024, we consequently focused on integrating ESG into our business processes, operations, value chain activities and our decision making. This is not only reflected in our strong ESG ratings in 2024, but also displayed by the positive development of some KPIs, such as the reduction of CO2 emissions for Scope 1 and 2 as well as the respective emission intensity by 20%. With the publication of our Green Finance Framework in September prior to the issuance of our Green Bond, we are continuing our journey to integrate sustainability into our financing structure. The framework strengthens our sustainability goals and supports Knorr Bremse’s efforts in promoting sustainable mobility and decarbonization of our own operations. The framework enables us to issue Green Finance Instruments to finance eligible green projects, which occur in the form of CapEx or OpEx.

Let's turn to slide 15 to discuss the financial highlights of quarter 4 specifically. Order intake was again very strong with more than 2 billion Euros. Down 7% organically year-over-year, which was driven by the truck markets – as expected. Revenues amounted also to almost 2 billion Euros and as in the three previous quarters, Book-to-Bill ratio was again above 1 - an important and good support for our future capacity utilization. Operating EBIT margin amounted to 12.2%, almost on the same level as in the previous year. Rail contributed to this development with very strong figures while truck margin decreased as expected. Free Cashflow improved further and came in at 482 million Euros, it followed the typical pattern throughout the year. The first quarter is always the weakest and the fourth quarter the strongest quarter in terms of our Free Cashflow generation – in 2025 we expect a similar development.

Let’s take a closer look at the RVS performance on Slide 16. In terms of order intake, RVS again recorded more than 1.1 billion Euros, posting a growth rate of around 12% year-over year thanks to the KB Signaling acquisition. Leading to that, the growth was particularly strong in North America while Europe as well as APAC remained stable. China declined as expected. Current rail demand is still very strong and should continue throughout the whole year, with half-year 1 stronger than half-year 2. Consequently, for the current quarter we expect that RVS should be able to post an order intake well above 1 billion Euros driven by some large orders. Book-to-bill ratio stood at 1.05, which means RVS reached a book-to-bill ratio at or above 1 thirteen quarters in a row now – again a new record in KB’s history. In 2025 we expect that rail’s Book-to-Bill ratio should also be above 1. As a result: order backlog reached new record levels with more than 5.4 billion Euros. In organic terms – meaning excluding Kiepe and KB Signaling – order backlog rose by around 8% in quarter 4 year-over-year. The high order backlog provides a strong basis well into 2025 and beyond.

Let’s move to slide 17. Quarter 4 revenues amounted to 1.07 billion Euros, an increase of 7 percent year-over-year. Our Aftermarket business grew in every region year-over-year in the fourth quarter. As a result, it’s very profitable revenue share increased to 57%. From a regional point of view, revenue growth was fueled by North America while Europe and APAC remained stable or almost stable. In Europe, good aftermarket business almost fully compensated slightly declining OE sales. North America recorded strong increases in both segments driven by KB Signaling. APAC region saw OE decline while aftermarket grew. China also saw growing revenues in aftermarket and declining OE business as expected after very strong Q2 and Q3 results which included some pre-buy effects. We believe, China should face some normalization in high-speed and aftermarket demand this year. Nevertheless, our Chinese revenues should stay flat year-over-year, even taking into consideration the good developments in 2024. Operating EBIT margin recorded an increase of 80 basis points to 15.6%, driven by operating leverage as well as efficiency and a lower share of legacy business. On top, a positive revenue mix driven by the before-mentioned higher aftermarket share impacted the operating EBIT margin positively. In Q1, we expect, that profitability of RVS should be slightly up quarter-over quarter. For the full year 2025, the operating margin of RVS should be well above 16% including an improvement over the course of the quarters this year.

Let’s continue with our truck division on chart 18. Order intake in CVS amounted to 887 million Euros, a decline of roughly 15% year-over-year, but 8% higher quarter-over-quarter. All major regions had to deal with weaker truck markets overall. CVS couldn´t escape these market developments and given the dimension was also unable to fully offset them even with our content per vehicle. Weak order intakes from Europe, North America and APAC came in as expected, while China posted higher numbers. Book-to-bill reached 0.97 in the past quarter and our order book with more than 1.8 billion Euros at the end of December remains on a good level and well above long-term average. Order intake in the current quarter is expected to show only a slight improvement quarter over quarter as the truck demand is still challenging. Nevertheless, the start into the year was promising. Going forward, we expect a rather sequential pick-up of truck demand, which then should be reflected in the development of our order intake. However, we are prepared for different scenarios. As a reminder, let me walk you through some of our measures: 1) High flexibility at our sites and facilities for temp workers 2) Short-time work at European plants if necessary 3) Robust pricing 4) Resilient Aftermarket business, which represents significantly more than 30% of revenues in Europe and North America and last but not least 5) Operational and structural cost optimizations via our BOOST program to counterbalance the market challenges ahead.

Let’s move on to chart 19. Revenues declined by 14% to 919 million Euros. This development was as expected and a solid performance in such a challenging environment. OE business in CVS – as expected – decreased in all regions, except South America, mostly in Europe followed by North America. Aftermarket business on the other hand was more robust and saw stable development in North America and even slightly increased in Europe and APAC region. In the European market, our revenues have experienced a 19% decline due to weak demand in both the truck and trailer segment, with heavy-duty truck production rates declining by over 30% in the quarter year over year. Higher aftermarket, which generates nearly 40% of our European revenues and our disciplined cost measures were the main reasons for the strong outperformance of the market - a clear sign of resilience. Same picture for APAC, where CVS could also outperform the decline in truck production rate of minus 6%. Revenues in North America also declined, mainly driven by OE business. BUT CVS was also able to show resilience if you take into account a decrease of heavy-duty truck production rate by around 10% in the same quarter. Coming to the bottom line: Our operating EBIT of our CVS division amounted to 87 million Euros in the past quarter, down around 26% year-over-year. As a result, the operating EBIT margin declined by 150 basis points to 9.5%. The lower margin was mainly impacted – as explained before – by the market driven operating leverages as well as the regional mix. Our supportive pricing strategy, the success of our efficiency measures and the higher share of revenues in the aftermarket were in total unable to fully offset all of these enormous negative market effects. For 2025, we expect almost flat revenues compared with the reported figure for 2024. This development will be supported by stable aftermarket business and our content per vehicle growth, but at the same time impacted by the two disposals with more than 200 million euros of revenues, as mentioned before. As a result, CVS then should be able to reach an operating EBIT margin of around 11%. We expect the current quarter to be the trough of the year – on or only slightly above the margin of the previous quarter – but that profitability should improve steadily in the following quarters. CVS development is subject to certain truck market recovery in H2. With that I hand over to Marc again.

FW Thank you, Frank. Let's have a look at our guidance for 2025 on slide 20. Based on the assumptions outlined on the right side of the slide, we expect the following for full year 2025: a revenue range of 8.1 to 8.4 billion Euros – despite more than 200 million Euros of divestments last year, an Operating EBIT margin between 12.5% and 13.5% and a Free Cashflow between 700 and 800 million Euros. This outlook fully supports the targets for 2026 that we set in our strategy update. We are absolutely on track and will deliver on our targets. We have had a good start to the new fiscal year so far, which fully supports our outlook. Ladies and gentlemen, as you can see, we have systematically implemented what we set out to do a year ago. We are delivering on what we announced. We have made great strides forward in our transformation. But as a global market leader, we are not fully satisfied with what we have achieved yet. In 2025, we want to implement the next level of our BOOST strategy program, which clearly focuses on sustainable and profitable growth. Thanks a lot for your attention.

AS Dear Ladies and Gentlemen, we will start the Q&A session in 1-2 minutes. In case you would like to ask questions, please dial-in via the provided telephone number, mute the webcast and ask the question via telephone. Please limit yourself to two questions. All other participants can stay in this webcast in listen-only mode.

M So, dear ladies and gentlemen, we will now start with a Q&A session. And if you want to ask a question, please press nine and the star key on your telephone keypad now to enter the Q&A. If you would like to cancel your question again, please press nine and the star key a second time. Thank you very much. We're starting with the first question from Akash Gupta of JP Morgan. Over to you.

AG Yes. Hi. Good afternoon, Marc, Frank, and Andreas. My first one is on rail industry where when you describe current situation, you are no longer mentioning supply chain problems with specialist supplier for the rail industry that you previously mentioned. So maybe if you can elaborate, is this all addressed or is this maybe less of a problem than what it used to be and whether you were able to overcome with duplication of supply chain or is it the same suppliers now back on track on their delivery commitments? Thank you.

FW Thanks, Akash. To set things straight, it was never a really huge issue like it was on the truck supply chain side some two years ago. It was always a completely different situation. We felt the need to mention it that not after CVS gotten basically back to 99% of all fine level that there's still a bit of issues on the rail side. It has gotten further better this low amount of noise, I would say on the supply situation. It has gotten better again and is as always a very low disruption only for us now. So it's not of that importance, but it has gotten still better.

AG Thank you. And my second question is on your BOOST BROWNFIELD FIX IT. So, in SELL IT part you disclosed that you have achieved a progress like based on the four entities that has been sold, you have achieved 80 basis points margin improvement versus 130 basis points that you targeted, while you have not given any comment on where are we in reaching the 70 basis points margin improvement from FIX IT. So any colour, any granularity on where we should be by end of the year on reaching this 70 bps that you target by end of 2026?

FW Thanks, Akash. You're right. On the FIX IT side, we have promised from 2022 to '26 to get the 70 base points, and I would say roughly at this point in time, because it's not so easy to calculate it because some of the assets in the meantime have been sold. So, they count for the first-year kind under FIX IT. And so it's a bit complicated, but I would say roughly at 50% level. We are currently, and we should be at the two third level of this moving into '26. So by the end of this year, the precise answer to your question would be roughly two third of that 70 bps we would've achieved.

AG Thank you.

M Thank you very much. Then the next question is from Sven Weier of UBS.

SW Yeah, good afternoon. Thanks for taking my questions. They also relate only around slide five in terms of the improvement measures. The first question I have is, should we understand that your FIX IT measures should be mostly completed by the end of 2027 and then you could potentially reach your new margin target in 2028 at the earliest? Or should we expect that to carry on still longer so that the earliest opportunity would be a bit later? And the second question is really on the R&D side, because Frank, you mentioned you go down to 6% from roughly six and a half. Is that improvement then mostly on the truck side? So you would be improving the truck R&D ratio by 100 basis points and bring that in line with the rail division? Thank you.

FW Thanks, Sven. First question in regards to FIX IT, I would say there are two elements to that FIX IT side. As you can see, there are some parts of the FIX IT program overall that are kind of precisely focused on getting the right portfolio together in terms of performing assets and performing companies. And I would say there you're perfectly right that we expect everything so to say, to be brought to a well performing level by '26. So that these measures should conclude by then. In regards to when it comes to global footprint optimization, this is something that is, for example, never ever ending. This is of course the ultimate task for each and every management to, on a regular basis, look at where the markets are developing, are we close enough to the customers, et cetera. So this is something where we might now do a bit of bigger moves over the next two years, but this is something that is very sustainable. As the nature of the topic is a rather strategic one, you have to permanently somehow adjust your organization and act to the current situation. So I would say most of it, yes, but some topics would linger on beyond 2026 as it's the nature of the game.

The second topic was important for us to mention clearly that we tried to bring the ratio down. As we also expect to grow, this is as a consequence, doesn't mean we cut down on R&D costs, not at all. So with growing revenues for the group, we will still be investing in R&D in the future, but relatively less on the truck side. You are perfectly right. The biggest efforts we do currently around the portfolio prioritization we do in truck and bring those levels the ratio below the levels of RVS to have the most efficient capital allocation that's possible in regards to the future investments. And by the way, same is true for CapEx as well.

SW Just a quick follow up on my first question in terms of 2028 being the first potential year of kind of a new margin target because question really around, are you done by the end of 2027 then mostly, and optimistically speaking, 2028 could be such a level, or should we brace ourselves for something later than this?

ML I'll take that. '26 will be the year where we first meet the lower line of our EBITDA funnel. So 14 is for us the understanding that for the future cycles, we never want to be falling below the 14. In order to reach that, we have to get to a much higher level in '27, '28, '29. We cannot say now which year, but in order to be very clear, we see ourselves volatile between 14 and the other number, which is quite higher. And that's our aspiration. So '26 is not the end of the story. '26 is just the full milestone of the story. When you ask what is the end of the story? There is no end of the story. Our aspiration is to compete in the industrial goods assets in the market. That is our aspiration. Our aspiration is not to be just at 14 as flash in the pan and then go back to another way. This is not. Our understanding is very clear. And this is why in the first step, first four years, we want to be very, very clear with our brownfields. But everything what comes then more and more, and you see it on the slide, the greenfield has to contribute to secure the 14 and to reach much higher. So when you ask what is our target margin in '28, there is no target margin. There's a target funnel to reach, and this target funnel starts with 14 as a low level, and everything above is then also our target. So it can be that in '28 we will be much higher, or it could be, but we have not a target where we say, and that's it, and that we have to secure. It's an aspiration, it's a journey, where we don't have to find so far the end of the final.

SW Very clear. Thank you, both.

M Thank you very much also from my side. Dear ladies and gentlemen, just a little reminder, the combination to state your question is nine and the star key. Thank you. Moving on to the next question. It is from Gael de-Bray of Deutsche Bank. Over to you.

GD Good afternoon, everyone. Thanks very much for taking my questions. Look, the first one is kind of a strategic related question. I can see the greenfield measures appear to be very focused on RVS, while at the same time you're talking about reducing CapEx and R&D intensity for CVS. So is the combination of CVS and RVS under the same roof still the right combination, the right strategic approach for Knorr-Bremse? And then I have a second question around rails spending, I know you guiding for book to bill above one, so it seems perfectly fine for this year. But there's always a time lag between what your customers, the OEMs see and what you see yourself. Just my question here is, have you seen any early sign that the constraints around public budgets in Europe and potentially the ongoing shift towards more spanning could eventually have a toll, could have a negative impact on the rail spending at some point? Thank you very much.

ML So to the second question, we haven't seen anything. And what happens in the future and whether Mr. Putin will be the best friend of Mr. Trump, which nobody has foreseen yesterday and seems to be today, the fact of the union, we cannot predict. But one thing for sure, our organization strategy is working. The trend is a fact, especially in areas which are mainly in Asia we will see a trend towards trains. And we see also orders coming, huge orders coming from Asia, more and more to our customers, and we are prepared to take it. So the answer's very clear. We don't see a shift; we don't see any form of shift from public spending to military.

Your first question was, I think it's the old question, why do you have tracks when rail run so fine? And then are you still having in mind to keep the two divisions together? Yes, we have because truck is massively contributing in terms of contribution, in terms of cash, in terms also of balancing when it comes to forms of joint efforts, it comes to cost in SG&A. We couldn't afford it with rail alone. It would also harm our rail margins if we would not stick together. Now you can ask rightly, should not be that the synergies, can you quantify the synergies? I cannot quantify the synergies in bps, but I can tell you, I would guess 100 at least in favour of rail and also for trucks. So long story short, truck and rail, very good. So in the last year, 2023, there are 50-50. This year is 55-45 in terms of revenue, it could be that this year we see a 60-40. This is nice because the margin in rail is higher and then truck is not. But what you will see in 2026 that the truck is picking up massively, truck is cyclical. And what we have to see, and we want to see that is by lowering down now the breakeven of trucks significantly for the next 12 months, we will see ourselves in a very good position when in 2026, the truck markets are coming up. And then we will see ourselves in a good position where we see much better margins than we see today. So long story short, the two divisions are cooperating perfectly. We see synergies more and more to come, especially when it comes to IT and AI where the differences in purchasing, the differences in accounting, these differences are vanishing more and more away, and with the right attitude, we can also leverage and also exploit this kind of synergies.

GD That's very clear. Thanks very much.

M Thanks a lot. The next question is from Wiliam Mackie of Kepler Cheuvreux. Over to you.

WM Good afternoon, Marc, Frank. Thanks for taking the time. A couple of questions. It seems to me that it's a very large and important question about considering a new leg to Knorr-Bremse, which would significantly shift the balance from your core businesses and impact thinking for your investors. So maybe just to start off, can you at least open the box and share a little of your thoughts about where this discussion on a new leg is going, how it's been debated at the supervisory board level, and what sort of efforts or thinking you have at your leadership level, please.

ML Okay. Thanks for that question. So, the third leg, which is now accompanying us for the last years. First, if you would plan it, we would not tell you, sorry to say, because you would just destroy the prices of potential assets. Second, it could be also an organic growth, which is already starting in. When it comes to a certain form of threshold, we will make them public. Third, if it comes to a moment that we think that the ownership or the management of that is better allocated in an independent unit, then we'll do it. But currently, and for the next months to come, we have no plans to go for a third leg. We have no plans to announce a statement that one of our internal units is big enough to stay alone. Or in terms of management allocation to stay separately, that means three times later, eventually. I don't tell you or we don't tell you because we don't want to poison our prices. And third, it can come from within.

WM Thank you. Very clear message. The second, which I'm sure is more tactical and to the pleasures of volatility created by Trump that you mentioned, tariffs. Can you just maybe update us on your current tactical thinking around tariffs, where the group is exposed to relevant cross-border flows of value added, and how you may have to adjust if worst-case scenarios unfold? Thank you.

FW Yeah, thanks. Good question. The history of this company and how this company developed over decades. We are decentral, organized company. We are where the customers are, we are where the markets are. We have a lot of high local content in most of the areas which suited us very nicely in the times of the supply chain disruption. We have not changed that approach, and we are even fostering that. So we are already on a very high level of local content in the respective markets, including North America. If we take the value add that we are deriving in North America, and the materials we are sourcing from North America and compare that with the levels that we are importing from abroad, we are above levels of 70%. So, on a very good level, if we also, what we think the competition and others are doing in that market. So, we are pretty comfortable. Do we have a remaining exposure? Yes, of course, as we do have import materials coming from Asia, from Europe into North America, a bit also from Mexico, a bit from Canada, but not a lot, not huge numbers that you should expect. And needless to say, at the basis we know we have full transparency upon, it's just about the factor that would be applied in case if anything would be applied as a tariff. That's then of course up to the political decision. We have a good transparency. Our local content levels are high. So I think we're in a pretty comfortable situation.

WM Thank you very much. Okay.

FW You're welcome.

M Thank you very much. Next question is from Lucas Ferhani of Jefferies. Please go ahead.

LF Hello. Good morning, everyone. So I have two questions. Maybe we do them one at a time. The first one is on the restructuring of the adjusting the production footprint. Can you give us a bit more of a view on what are the regions where you're looking at making some of those changes and how you got to the 50 million euro, is it in Germany, and is it kind of severance kind of packages? And that would be also kind of mostly related to truck, or is there also things you can do on the production footprints in rail? And also it seems to be kind of an ongoing discussion around whether these other happens or not. Do you have a timing in mind? Are you waiting to see maybe how H2 unfolds before kind of launching this restructuring? Thank you.

FW Yeah, I start with the timing. This timing has nothing to do with the development of half year one or half year two. And I try also to make the bridge now to Marc, who also needs or wants to say something in that regard. So it doesn't depend on a quarterly development of the market. We are taking the actions as we see a strategic need. I think we clearly outlined that we don't need to do these measures in order to get our '26 targets achieved. Definitely not. It's about the strategic thinking and the strategic optimization of the company way beyond '26. So it has nothing to do with a half year one or whether half year one is a bit better than previously thought or something like this. This is fully independent as it's a strategic need and something that we see. And before I hand over to Marc, I just tell you once more, even most of the measures I would say, or at least half of the measures of the 50 you mentioned will be in the rail segment. And there you can see the strategic thing is we have by far not yet on a level where we say we have reached the ultimate that rail can deliver. So we are even thinking about footprint restructuring things also in rail to boost rail even beyond where they could be next year. So I think that's a good thing. And we are of course thinking about the region of Europe where we do have some production facilities in countries that are maybe not the highest, the best competitive ones in the world. But Marc will tell you a bit more on that now, just that you know it's not truck restructuring only as an urgent, immediate need. It's about a strategic thing that we are doing.

ML So I jump into that and first of all, absolutely right what Frank said. Mr. Ferhani, I would say the following. The breakeven of the two divisions are not efficient. They're too high, period. The personal costs are too high. The location footprints are not optimized. They are now started to be optimized. The engineering footprint is not optimized. They will be optimized. All of that is not only a reduction, this is a reshuffling, this is a reshuffling of capacities. It could be a strengthening in some area, it could be a weakening of other areas and in locations. Number two, all the restructuring which is taking place is now on both sides of this, so that means we will see it in trucks, we will see it in rail, and we will see it also in the headquarter. So, we have a lot of things here to do, especially when it comes to IT. So the IT is also part of the restructuring. So that means what are we doing, for what are we paying, for what are we not paying in the future? And have we ever really leveraged the synergies of both unities? We don't have. So this is very clear. So besides that, we will strengthen our focus because as you rightly know, 1.5 billion of the 3.78 billion of trucks is generated out of America. So a good third of our business, more than that, is in America. In rail, we were, before our acquisition, we were just at 300 to 400 million out of 4 billion, so nearly 10%. Now with the acquisition of 300 million, we're now in a range of 700. 700 is still not enough to be rightly allocated in the regions. So that means we are relatively strong in rail in Asia, we're relatively weak in truck in Asia. We are relatively strong in rail and truck in Europe, and we're relatively underrepresented in America with rail. So that gives you an indication where we have to grow and where we have to go. And why do we do that? Because exactly as the colleague of yours asked, I think Wiliam Mackie asked that, do we have any issues with potential tariffs and wars? Of course it could cause some irritations. Of course, we have already proposed and prepared ourselves for the last two, three years to be not dependent from any president, not from any president. But to be very clear, America and American market is extremely interesting for us. Why is that? The market is fairly protected against Chinese contenders, which the European market is not. So you can imagine why also our competitors make a very, very good margin in America. And that's exactly where we want to be also, not only in trucks, but also in rail. In Asia, we are extremely well located in China with our rail operations. But also, here we have to be very clear, we have to be self-autonomous when it comes to any points of tariffs and wars. And we are working on that. In terms of trucks, we are relatively weak in China and we're relatively weak in India. That has to be addressed, that has to be changed. What is good is that we could see already self-healing capacities in Japan where we are merging and sizing, right sizing the operations which we have in truck. And everybody was telling us that they cannot make any money out of Japan. And I can tell you since 12 months we are doing it, we are making money out of Japan with Japanese customers, and it is a very good market for us. So it can be done sometimes even without an acquisition. Hopefully, this gives you a little bit of an insight how we think.

LF That's super clear, thanks. And the second one on rail, the first part would be just on the signalling expansion that you talk about. Can you tell us a bit more how you want to do it, to come to Europe and also going into digital? Obviously in the deal it's mostly focused on the conventional portfolio, so how do you kind of make that move? And the second one is just on the rail you're talking about slightly declining sales. I think in the equipment side in Europe and China. Just wondering why are we seeing maybe some kind of weakish volume in OE, given we're seeing quite strong kind of older trends, or maybe it's just the lumpiness? Thank you.

ML I don't know whether you get the numbers. In China, we see rebounds. In 2023, we had only 100 to 120 high speed trains. Last year, we have seen 240 high speed trains only in China alone. So the good thing in China is that our Chinese customers are reflecting to our high superior quality and also to our technology superiority ground. So that means we see very good penetration in metros. They come back to us when it comes to high-speed trains. So we can't see any form of deterioration of the Chinese market, which I remember in 2022 and 2023, this was part of the story that we have an end of the party. Yes, that is right, but it is now normalizing, and I think we got very well acquainted with the normalization of the Chinese market. And we have very good connections to our Chinese customers, especially in rail, where we see a high appreciation of our technology, high appreciation also of our quality and on-demand supply. In China, I would slightly disagree with your question, or let me say your statement. In terms of the rest of the rail business, where we see ourselves increasing our digitalization. The thing is relatively clear. We are getting more and more requests that not only the braking control system, but also the technology which is required by more and more providers. They want to have more answers. They want to have more services, which can be provided by first-tier suppliers, which we are. In terms of signalling, there's even a German and European request to us to step into this business. So we have here a reputation, this reputation is taken. And this also granted, if you would, enlarge our product scope. So that means you are right when you say in America, you have a first step taken. Now what of the rest of the world? We'll be very careful because we have a reputation to lose. So whatever we do in this area will be step by step, and it could be organic and it could be also unorganic, to be significant. Now the question is, do we have an idea? Yes, we have more than an idea. And it's very clear that our next focus is the affiliated countries to America, like Australia, South America, South Africa. That are the countries which can be easily supplied by our services and also our products services and solutions from America. But if anything exceeds this market, it's very clear we need another step to take.

LF Great, thank you.

M Thanks a lot. Then the next question is from Ben Uglow of Oxcap Analytics. Please go ahead.

BU Afternoon, guys, and thank you for taking the question. It's actually kind of similar to the one before, but Marc, the point that you make about China, you are guiding to flat revenues. And I guess that's the question. Unless high speed is going down significantly or that there's something differentiated on ridership, why wouldn't revenues be better this year in China? So that's my first question.

FW Ben, good to hear you again, first of all. Our flattish development guidance for China is not new. Ever since Evergrande happened in China and the real estate markets went down south, there has not been a significant demand out there. It's a lumpy figure over the last years, around 5,000 metros each and every year, where in the past we had seven and a half thousand or even more. And there we have to be a bit careful when it comes to the expectations for the metro market going into the future. That explains one thing that offsets a bit on the high-speed side of things.

BU Understood, understood. And then the follow up for, I guess, well, for either is the market or let's call it the outsider perception is that there aren't that many available decent assets in rail. And if you want to grow inorganically rather, and you've got a great stepping stone of significant building block with the outbound signalling transaction, that's great, but it's not going to be that straightforward. The pipeline is not that easy. Do you agree with that? Is that correct or not? And to what degree has the Alstom signalling acquisition kind of opened up that world to you? Has it become easier to identify new targets?

ML First question I would like to answer. No, there are targets. And the second is, yes, it's easier with experts on your side to define and to identify potential assets which are accretive to our overall business.

BU So we should expect that when you are making decisions between inorganic and organic, there are avenues to explore in the next one to two years, it's clear?

ML Yes.

BU Got it. Thank you.

M Thank you very much. Then the next question is from Tore Fangmann, Bank of America. Over to you.

TF Hi, good afternoon. Thank you for taking my questions. Two from my side as well. Just one of the, you have the expectations around the recovery in CVS slipped to the right a little bit and it looks a little bit more apparent in North America despite the orders actually being a bit better. And is there any view from your side on pre-buying here? And then secondly, could you tell us a little bit about how much of the growth comes from the content per vehicle, and do you expect this to accelerate with the new truck model launches over the next quarter of the years? Thank you.

FW Thanks for that question. First of all, recovery, I wouldn't say it slipped to the right side. I think in all the conferences I've been over the last month, I've always been, when I was able to do so, I did draw even a picture of how we see the market somehow. And we saw that there will be a trough and then it's getting better, we think within '25 over the quarter. So that's still kind of remains intact. And as you also know, the stock levels, the inventory levels of the OEMs have been reaching quite a high level by the end of quarter three. Levels came down from 90,000 units now, but due to production reductions down to a level of 80,000, the longer-term average over the previous quarters have always been around 60 to 65,000 in the North American market. So there is a bit of a risk in there, which we also need to, of course, consider when we talk about guidances going into the future. And we see a bit of a risk. And that's why we have given the guidance, we've given it that also production is not immediately jumping up. In regard to pre-buy, we also stick to what we have always said in that regard. We do think that only at the very end of '25, we might see as first order intakes as a tier-one supplier, the first signals of a pre-buy, not earlier. I don't think that the fleets would need two years to replace their fleet to go for the maximum potential of pre-buys, but maybe rather one and a half years. That would imply that the first suppliers maybe get order intake upraised towards Q4, not earlier. Content per vehicle, I think a good question as well. You also see in the guidance that we have been saying that basically in a nutshell, CVS will have stable revenues year over year, almost stable revenues year over year, 210 million go out because of disinvestments. So you can say that we are compensating 200 million basically in the wider terms with content per vehicle. So we are, I would say, fully on track with what we said so far. So that looks good. It's compensating for the divestments.

TF Thank you so much.

AS As we see, there are no other people who want to ask questions. Thank you very much for participating today. We wish you a great spring, which hopefully comes up soon. Thanks a lot and bye-bye.